

**FRANCIS MARION UNIVERSITY
FLORENCE, SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

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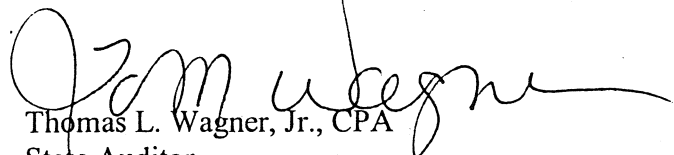
November 1, 2004

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
Francis Marion University
Florence, South Carolina

This report on the audit of the basic financial statements and the additional reports required by OMB Circular A-133 of Francis Marion University for the fiscal year ended June 30, 2004, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

FRANCIS MARION UNIVERSITY

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YEAR ENDED JUNE 30, 2004**

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INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of Francis Marion University, (the University) and its discretely presented component unit as of and for the year ended June 30, 2004 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the University's financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the University and its component unit. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2004, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Management's Discussion and Analysis on pages 3 through 8 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of University taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2004, on our consideration of University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should and should be considered in assessing the results of our audit.

Rogers + Lalan, PA

October 27, 2004

FRANCIS MARION UNIVERSITY

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of Francis Marion University for the year ended June 30, 2004 with selected comparative information for the year ended June 30, 2003. This discussion is presented along with financial statements and related footnote disclosures of the University and its component unit. The discussion and analysis is limited to the University and its focus is on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and footnotes. Separately issued financial statements of the component unit are available from management of the component unit. The report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement and its purpose is to present to the readers of the financial

statements a fiscal snapshot of Francis Marion University. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and nets assets (assets minus liabilities). Current assets are those which are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is expected to require the use of current assets.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the equity in property, plant, and equipment owned by the University. The next category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the University.

Condensed Statement of Net Assets

	2004	2003	Increase/ (Decrease)	Percent Change
Assets:				
Current assets	\$ 9,384,586	\$ 8,377,498	\$ 1,007,088	12.02%
Capital assets, net of accumulated depreciation	26,199,606	27,549,381	(1,349,775)	(4.90%)
Other noncurrent assets	3,217,595	3,415,071	(197,476)	(5.78%)
Total assets	38,801,787	39,341,950	(540,163)	(1.37%)
Liabilities:				
Current liabilities	2,598,786	2,391,106	207,680	8.69%
Noncurrent liabilities	5,435,331	5,415,530	19,801	0.37%
Total liabilities	8,034,117	7,806,636	227,481	2.91%
Net assets:				
Invested in capital assets, net of debt	25,930,309	23,842,623	2,087,686	8.76%
Restricted - nonexpendable	200,000	200,000	-	0.00%
Restricted - expendable	1,241,388	1,437,950	(196,562)	(13.67%)
Unrestricted	3,395,973	6,054,741	(2,658,768)	(43.91%)
Total net assets	\$ 30,767,670	\$ 31,535,314	\$ (767,644)	(2.43%)

The Statement of Net Assets shows a decline in assets and an increase in liabilities resulting in a decrease in net assets. Significant changes on the Statement of Net Assets are as follows:

- Total assets of the University decreased by approximately \$540,000.
- The decline in capital assets indicates that disposals and depreciation exceed the investment in assets.
- The increase in current assets results from a rise in receivables for student fees and auxiliary reimbursements.
- Current liabilities increased due to an increase in the amount of accounts payable.
- The \$2,088,000 increase in the amount invested in capital assets is offset by the \$2,659,000 decrease in unrestricted net assets. These changes resulted from the bond debt defeasement and deferred housing rental.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenue, expenses, gains, and losses received or spent by the University. Operating revenues are those that are earned in exchange for goods or services provided while carrying out the mission of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

The Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions on an entity in the period in which those transactions occur rather than in the period in which cash is received or paid. Revenues are recognized when services or goods are provided. Expenses are recognized when resources are utilized in order to produce goods or services.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2004	2003	Increase/ (Decrease)	Percent Change
Operating revenues	23,681,939	20,788,094	2,893,845	13.92%
Operating expenses	38,207,118	36,810,289	1,396,829	3.79%
Operating loss	(14,525,179)	(16,022,195)	1,497,016	(9.34%)
Nonoperating revenues	14,131,481	16,733,600	(2,602,119)	(15.55%)
Nonoperating expenses	(212,197)	(240,577)	28,380	(11.80%)
Net nonoperating revenues (expenses)	13,919,284	16,493,023	(2,573,739)	(15.61%)
Income (loss) before other revenues, expenses, gains, losses, and transfers	(605,895)	470,828	(1,076,723)	(228.69%)
Other revenues, expenses, gains, losses, and transfers	(161,749)	638,331	(800,080)	(125.34%)
Increase in net assets	(767,644)	1,109,159	(1,876,803)	(169.21%)
Net assets - beginning of year	31,535,314	30,426,155	1,109,159	3.65%
Net assets - end of year	\$ 30,767,670	\$ 31,535,314	\$ (767,644)	(2.43%)

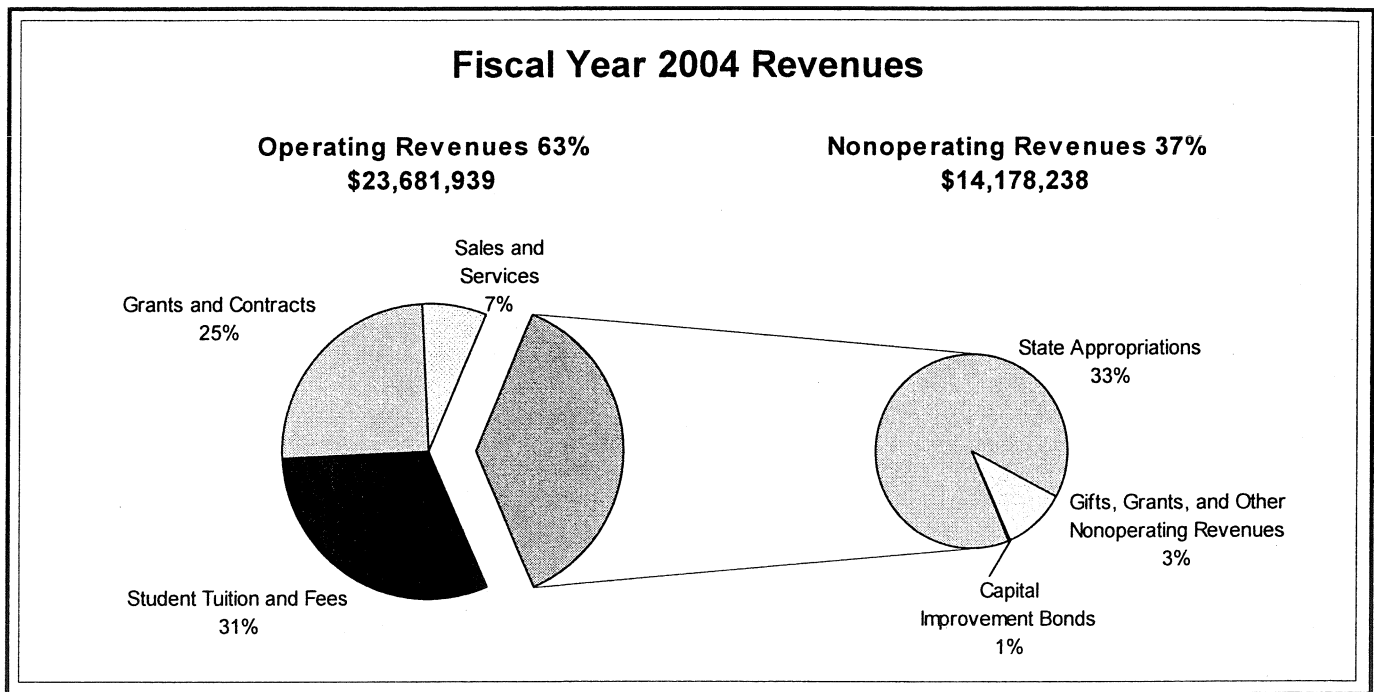
The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease in net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Operating revenues increased in excess of \$2.8 million. The Board of Trustees increased tuition to partially offset reductions in state appropriations. The net tuition increase of about \$1,866,000 and the approximately

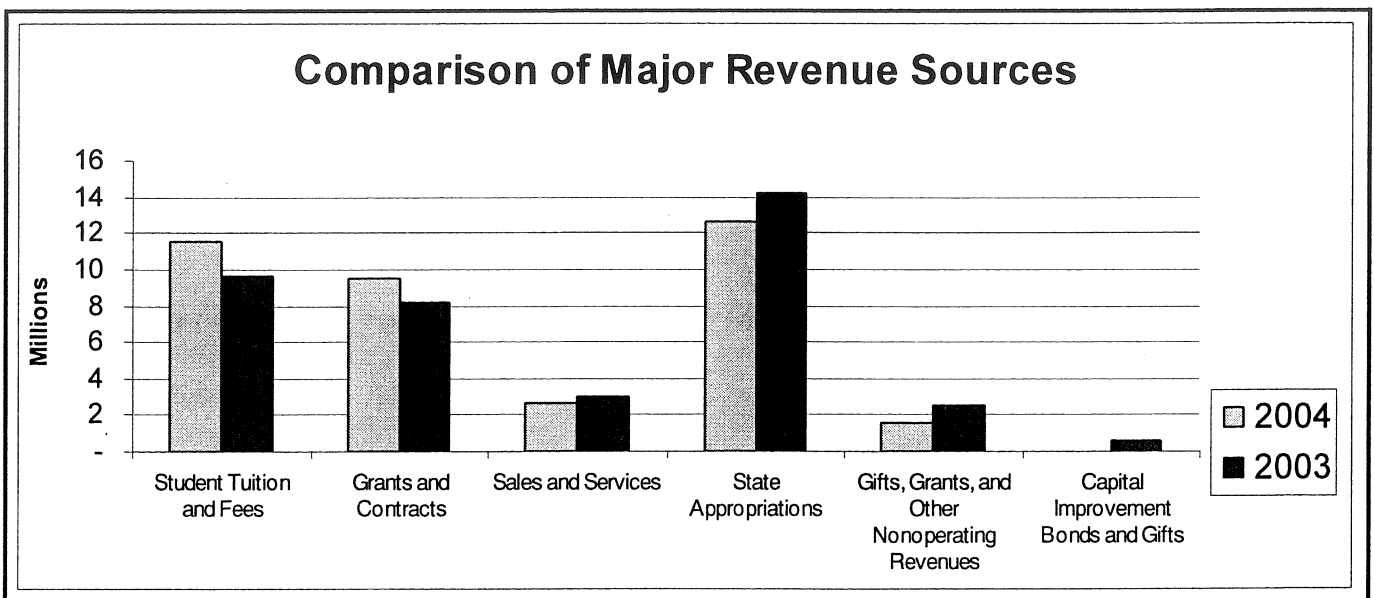
\$1,308,000 increase in federal and state grants were mitigated by the outsourcing of housing.

- The decline in nonoperating revenue is due to the \$1,531,000 decrease in state appropriations and a reduction in nonoperating gifts and grants and investment income.
- Other losses resulted from the \$208,000 loss on early refunding of bonds and a decrease in capital improvement bonds and gifts.

The following graph presents the sources of revenue used to fund the University for the year.



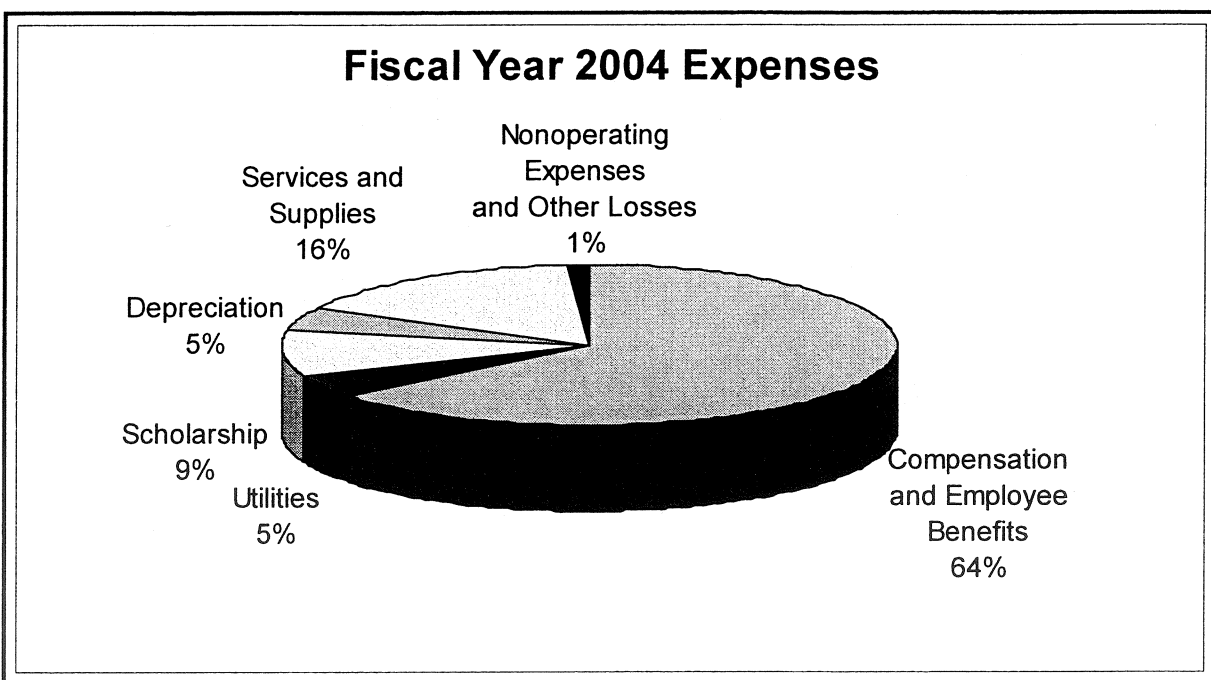
The graph below, comparing 2004 revenue sources to 2003, illustrates the changes in major revenue sources.



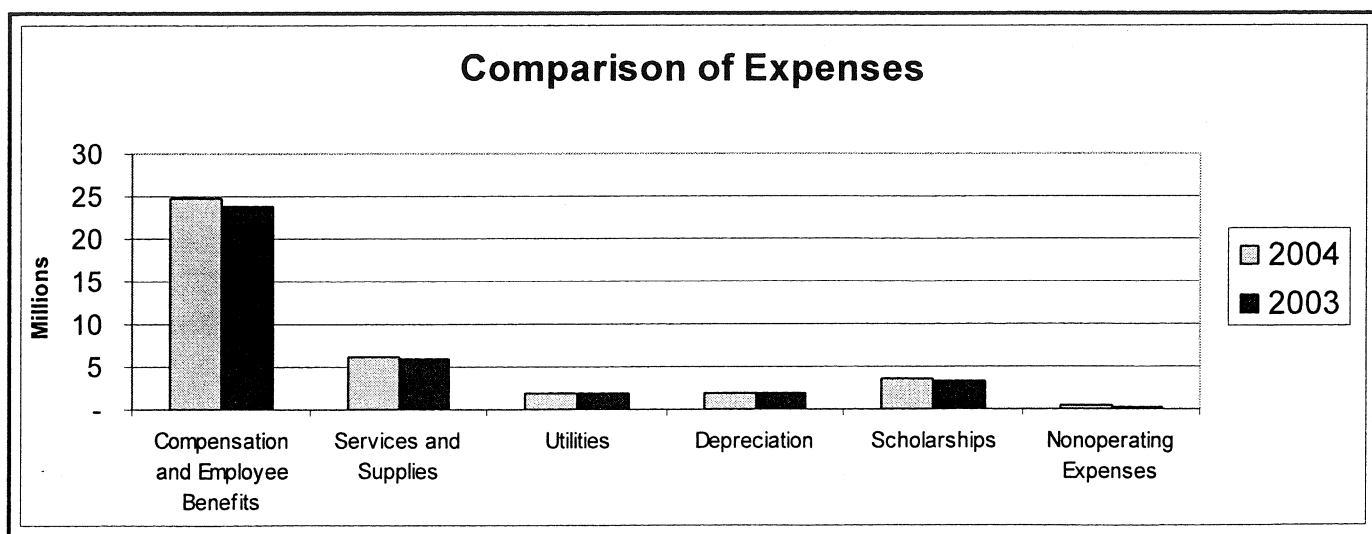
- Total operating expenses have increased approximately \$1,397,000. Compensation and employee benefits increased due to a 1.5% pay raise effective July 1, 2003, a cost of living increase effective December 1, 2003, and additional physical plant support for repairs and maintenance. The additional physical plant

support is also apparent in the increase in supplies and services of \$219,000. The growth in grants for scholarships raised the amount given to students for off campus cost of living expenses by approximately \$180,000.

The following graph displays expense categories.



The graph below compares 2004 expenses to the subsequent year and illustrates the changes in major expense types.



Statement of Cash Flows

The final statement presented by Francis Marion University is the Statement of Cash Flows. The Statement of Cash Flows gives detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first section presents operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities and displays the cash received and spent for noncapital financing purposes. The third section exhibits cash flows from capital and related financing activities and shows cash used for the acquisition and construction of capital and related items. The fourth part gives the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss displayed on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Activity

A significant renovation was made to the Kassab Tennis Courts during the fiscal year 2004. This renovation was funded with maintenance reserve.

Using the Francis Marion University Real Estate Foundation lease payment for existing housing and the land to construct a new housing facility, the University defeased its outstanding revenue bonds. For additional information see Note 15 in the notes to the financial statements.

There were no new capital bonds authorized or revenue bonds issued in fiscal year 2004. There have been no significant changes in credit ratings or debt limitations that might affect future financing for the University.

The University plans to internally fund the construction of a student activities center. The Francis Marion University Foundation will design a department of nursing facility and the University will construct the building with funds provided by the Foundation.

Economic Outlook

The University, like other state agencies in South Carolina, has been called upon to react to a series of reductions in state-appropriated support over the last several years. While responding to changes in the availability of state funds, the University has endeavored to manage tuition in order to remain competitive and to control resources necessary to maintain a high level of academic excellence. Given the economy of the state, issues that continue to challenge the University are the need to address deferred maintenance, renovations, and new construction.

The University's overall financial position is sound, and the University is well-positioned to maintain its financial stability and to adapt to changes in state-funding as well as to other internal and external issues.

Francis Marion University
Statement of Net Assets
June 30, 2004

ASSETS

Current Assets

Cash and cash equivalents	\$ 7,507,680
Accounts receivable (net of allowance for doubtful accounts \$117,863)	955,610
Accrued interest receivable	73,331
Due from Francis Marion University Foundation	58,356
Prepaid expenses	708,846
Inventories	80,763
Total current assets	9,384,586

Noncurrent Assets

Restricted cash and cash equivalents	1,095,484
Long-term accounts receivable	200,000
Due from FMU Foundation	200,000
Perkins loans receivable	1,722,111
Capital assets, net of accumulated depreciation	26,199,606
Total noncurrent assets	29,417,201
Total assets	38,801,787

LIABILITIES

Current Liabilities

Accounts payable	392,185
Accrued payroll and related liabilities	256,998
Accrued compensated absences - current portion	932,794
Student deposits - current portion	78,765
Deferred revenues and unearned student revenues	753,184
Leases payable - current portion	18,374
Notes payable - current portion	65,670
Deposits held for others	100,816
Total current liabilities	2,598,786

Noncurrent Liabilities

Accrued compensated absences	422,557
Student deposits	56,410
Deferred revenue	3,151,484
Leases payable	62,872
Notes payable	108,991
Perkins liability	1,633,017
Total noncurrent liabilities	5,435,331
Total liabilities	8,034,117

NET ASSETS

Invested in capital assets, net of related debt	25,930,309
Restricted for	
Nonexpendable	
Scholarships and fellowships	200,000
Expendable	
Scholarships and fellowships	152,416
Research	2,651
Instructional department uses	594,980
Loans	445,455
Capital projects	960
Other	44,926
Unrestricted	3,395,973
Total net assets	\$ 30,767,670

See accompanying Notes to Financial Statements.

Francis Marion University
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2004

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$6,152,062)	\$ 11,091,044
Federal grants and contracts	4,583,984
State grants and contracts	4,818,185
Local grants and contracts	34,409
Non-governmental grants and contracts	9,583
Sales and services of education departments	217,988
Sales and services of auxiliary enterprises	2,478,899
Other operating revenues	447,847
Total operating revenues	<u>23,681,939</u>

OPERATING EXPENSES

Salaries and wages	19,697,274
Benefits	5,098,062
Supplies and other services	6,218,159
Utilities	1,861,199
Scholarships	3,465,954
Depreciation	1,866,470
Total operating expenses	<u>38,207,118</u>
Operating loss	<u>(14,525,179)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	12,643,305
State grants	512,252
Gifts	814,733
Investment income	116,727
Interest and other fees on capital asset related debt	(128,197)
Other nonoperating revenues (expenses)	(39,536)
Net nonoperating revenue	<u>13,919,284</u>
Loss before other revenues, expenses, gains, losses, and transfers	<u>(605,895)</u>
Capital improvement bonds	30,584
Loss on early refunding on bonds	(208,505)
Transfer from FMU Foundation	16,172
Decrease in net assets	<u>(767,644)</u>

Net assets - beginning of year	<u>31,535,314</u>
Net assets - end of year	<u>\$ 30,767,670</u>

See accompanying Notes to Financial Statements.

Francis Marion University
Statement of Cash Flows
For the Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 11,281,635
Grants and contracts	9,369,434
Auxiliary enterprises	4,314,780
Payments to suppliers	(10,300,636)
Payments to employees	(19,938,601)
Payments for benefits	(5,176,783)
Payments for scholarships	(3,460,956)
Loans to students	(380,507)
Collection of loans	346,443
Sales and services of educational activities	223,547
Receipts for reimbursements	524,354
Inflows from Stafford loans	12,499,286
Outflows from Stafford loans	(12,492,970)
Other receipts	680,702
Other disbursements	(132,892)
Net cash (used) by operating activities	(12,643,164)

CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	12,643,305
State grants	512,252
Gifts	727,211
Other outflows	(87,000)
Net cash flow provided by noncapital financing activities	13,795,768

CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital appropriations	30,584
Capital grants and gifts received	9,229
Purchases of capital assets	(434,395)
Proceeds from sale of capital assets	3,325
Principal paid on revenue bonds	(370,000)
Principal paid on capital leases	(23,185)
Principal paid on note payable	(63,322)
Interest and fees	(192,685)
Net cash (used) by capital activities	(1,040,449)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	127,634
Net cash flows provided by investing activities	127,634

Net change in cash	239,789
Cash and cash equivalents - beginning of year	8,363,375
Cash and cash equivalents - end of year	\$ 8,603,164

Francis Marion University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2004

Reconciliation of net operating revenues (expenses) to net cash provided

(used) by operating activities:	
Operating (loss)	\$ (14,525,179)
Adjustments to reconcile net (loss)	
to net cash (used) by operating activities:	
Nonoperating revenue	57,885
Noncash gifts	105,465
Transfer from FMU Foundation	16,172
Depreciation expense	1,866,470
Bad debts	68,050
Loan cancellations	40,463
Change in asset and liabilities:	
Receivables net	(459,783)
Inventories	7,996
Loans to students	(35,308)
Deferred charges and prepayments	(211,964)
Accounts payable	331,181
Accrued payroll and related liabilities	45,868
Deferred revenue	(7,478)
Perkins liability	4,971
Deposits held for others	16,393
Compensated absences payable	35,634
Net cash (used) by operating activities	<u>\$ (12,643,164)</u>

Noncash capital and related financing activities:

The University disposed of equipment with a cost of \$263,206 and accumulated depreciation of \$246,459.

The University acquired new equipment with a cost of \$85,657 with capital lease financing.

The University defeased \$3,080,000 in bonds and recorded \$3,288,505 in unearned housing rental and a \$208,505 loss on early refunding of bonds.

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2004

ASSETS

Cash and cash equivalents	\$ 2,607,369
Investments	9,685,756
Contributions receivable, net	3,550,706
Assets held in trust by others	863,525
Property and equipment	748,190
Other assets	68,378
Land held for resale	<u>28,000</u>
TOTAL ASSETS	<u>\$ 17,551,924</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 2,780
Due to Francis Marion University	58,356
Notes payable	<u>600,000</u>
TOTAL LIABILITIES	<u>661,136</u>

Net Assets:

Unrestricted	2,889,593
Temporarily restricted	6,529,876
Permanently restricted	<u>7,471,319</u>

TOTAL NET ASSETS	<u>16,890,788</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,551,924</u>
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See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY FOUNDATION

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support:				
Gifts and bequests	\$ 123,357	\$ 5,550,716	\$ 871,208	\$ 6,545,281
Trust income	44,000	34,823		78,823
Investment income	13,817	210,206	1,627	225,650
Cottage income	41,957			41,957
Net realized and unrealized gains (losses) on investments	390,205		15,003	405,208
TOTAL REVENUES AND GAINS	613,336	5,795,745	887,838	7,296,919
Net assets released from restrictions	648,830	(648,830)		-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	1,262,166	5,146,915	887,838	7,296,919
Expenses:				
Program expenses	681,157			681,157
General and administrative	145,865			145,865
Interest expense	26,730			26,730
Fund raising	22,898			22,898
Cottage expenses	40,271			40,271
Campaign expenses	6,720			6,720
TOTAL EXPENSES	923,641			923,641
Changes in net assets before transfers	338,525	5,146,915	887,838	6,373,278
Transfer to Francis Marion University	(16,172)			(16,172)
Changes in net assets	322,353	5,146,915	887,838	6,357,106
NET ASSETS, JUNE 30, 2003	2,567,240	1,382,961	6,583,481	10,533,682
NET ASSETS, JUNE 30, 2004	\$ 2,889,593	\$ 6,529,876	\$ 7,471,319	\$ 16,890,788

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Francis Marion University is a State-supported coeducational institution of higher education. The University's primary purpose is to provide academic instruction to students and conduct research and other activities that advance fundamental knowledge.

The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education enterprise funds in the Comprehensive Annual Financial Report of the State of South Carolina.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, was issued in May 2002 and provides additional guidance concerning the inclusion of related party financial information as a part of the reporting entity. The accompanying financial statements present only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component unit.

The Francis Marion University Foundation (Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial

statements. Copies of the separately issued financial statements of the Foundation can be obtained by sending a request to Francis Marion University Foundation, Post Office Box 100547, Florence, South Carolina 29501

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

The Foundation is a private nonprofit organization that reports under FASB, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

Cash and Cash Equivalents

For purposes of the financial statements, the University and its component unit consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through South Carolina State Treasurer's Office are considered cash equivalents.

Investments

The University accounts for its investments at fair value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

The Foundation investment securities and donated negotiable assets are stated at fair value. Investment income, net of external and internal management expenses and fees, and gains and losses arising from the sale or other disposition of investments and other non-cash assets are distributed to the various funds using a pooled income approach. This approach distributes income following the market value unit method, which is based on the number of units each fund owns in the managed investment pool.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Contributions Receivable

The Foundation contributions receivable consist of unconditional promises to give. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Contributions receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories are for internal use and are valued at cost using the first in-first out (FIFO) method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000.

Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles.

Deferred Revenues and Deposits

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include deferred rental income and amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets.

Perkins Loans Receivable and Related Liability

The loans receivable on the balance sheet are due to the University primarily under the Perkins Loan Program. The federal government funds this program with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a prorata share of net earnings on the loans under this program that would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources may be used at the discretion of the governing board to meet current expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

The net assets of the Foundation are classified as follows:

Unrestricted net assets: Net assets subject to donor-imposed stipulations. Unrestricted net assets also include funds designated for specific purposes by action of the Board of Directors.

Temporary restricted net assets: Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

Income Taxes

The University, as a political subdivision of the State of South Carolina, is excluded from federal income taxes under Section 115(a) of the Internal Revenue Code, as amended.

Francis Marion University Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code and is exempt from taxes under Section 501(c)(3).

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Sales and Services of Educational and Other Activities

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from community groups using campus facilities for summer camps and other activities.

Auxiliary Enterprises and Internal Service Activities

Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, dining services, and housing. Transactions between the University and its auxiliary enterprise activities and its internal service department have been eliminated.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain

governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS, DEPOSITS, AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amounts:

<u>Statement of Net Assets</u>		<u>Footnotes</u>	
Cash and cash equivalents (current)	\$ 7,507,680	Cash on hand	\$ 26,225
Restricted cash and cash equivalents (noncurrent):		Deposits held by State Treasurer	8,576,939
Exchange grants	777,601		
Perkins loan funds	317,883		
Total	<u>\$ 8,603,164</u>	Total	<u>\$ 8,603,164</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Other Deposits

The Foundation maintains its cash balances in various financial institutions. The balances at the institutions are insured up to \$100,000 by federal deposit insurance. As of June 30, 2004, there were uninsured amounts at the institutions of \$223,164. Included in cash and cash equivalents is \$2,310,739 in uninsured amounts managed by a brokerage firm.

Investments

The Foundation investments as of June 30, 2004, are summarized as follows:

Certificates of deposit	\$ 1,259,846
Equity securities	5,685,558
Corporate bonds	1,788,161
Government bonds	952,191
Total	<u>\$ 9,685,756</u>

Financial instruments which potentially subject the Foundation to concentration of credit risk consist principally of investments in various debt securities. The exposure to concentrations of credit risk relative to investments is limited due to the Foundation's investment objective and policies, as adopted by its Board of Directors.

NOTE 3 – RECEIVABLES

Accounts Receivable

The University accounts receivable as of June 30, 2004, are summarized as follows:

Current:	
Student tuition and fees	\$ 322,544
Less allowance for doubtful accounts	(117,863)
Federal grants and contracts	269,760
State and local grants and contracts	32,906
Sales and services of education departments	21,534
Auxiliary services	377,685
Other	49,044
Net accounts receivable	<u>\$ 955,610</u>
Noncurrent:	
Advance receivable	<u>\$ 200,000</u>
Net accounts receivable	<u>\$ 200,000</u>

**FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS**

The amounts shown above are reported at gross with all discounts and allowances disclosed.

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2004, the allowance for uncollectible student accounts is valued at \$117,863.

The University advanced \$200,000 to Sodexho, the food service contractor. The advance is for the term of the contract, which ends on June 30, 2008.

Contributions Receivable

The Foundation contributions receivable as of June 30, 2004, are summarized as follows:

Unconditional promises expected to be collected in:	
Less than on year	\$2,269,619
One year to five years	1,520,446
	<u>3,790,065</u>
 Less discounts to net present value	 208,359
Less allowance for uncollectible contributions	31,000
Net contributions receivable	<u><u>\$3,550,706</u></u>

NOTE 4 – LOANS RECEIVABLE

Student loans made through the federal Perkins loan program comprise substantially all of the loans receivable as of June 30, 2004. The Perkins loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education.

**FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – CAPITAL ASSETS

Capital assets activity of the University for the year ended June 30, 2004, is summarized as follows:

	Beginning Balance July 1, 2003	Additions	Retirements	Ending Balance June 30, 2004
Capital assets not being depreciated:				
Land and improvements	\$ 632,392	\$ -	\$ -	\$ 632,392
Construction in progress	356,565	49,647	-	406,212
Art work and historical treasures	200,248	-	-	200,248
Total capital assets not being depreciated	1,189,205	49,647	-	1,238,852
Other capital assets:				
Land improvements	2,332,315	289,434	-	2,621,749
Buildings and improvements	55,008,270	-	-	55,008,270
Machinery, equipment, and other	2,479,343	179,650	(252,364)	2,406,629
Vehicles	418,487	14,711	(10,842)	422,356
Total other capital assets at historical cost	60,238,415	483,795	(263,206)	60,459,004
Less accumulated depreciation for:				
Land improvements	(1,828,920)	(53,552)	-	(1,882,472)
Buildings and improvements	(29,666,964)	(1,583,093)	-	(31,250,057)
Machinery, equipment, and other	(1,998,775)	(210,135)	235,617	(1,973,293)
Vehicles	(383,580)	(19,690)	10,842	(392,428)
Total accumulated depreciation	(33,878,239)	(1,866,470)	246,459	(35,498,250)
Other capital assets, net of accumulated depreciation	26,360,176	(1,382,675)	(16,747)	24,960,754
Capital assets, net of accumulated depreciation	\$ 27,549,381	\$ (1,333,028)	\$ (16,747)	\$ 26,199,606

NOTE 6 – PENSION PLAN

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the

Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of

FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2003, the employer contribution rate became 10.85 percent that included a 3.30 percent surcharge to fund retiree health and dental insurance coverage. The University's contributions to the SCRS for the three most recent fiscal years ending June 30, 2004, 2003, and 2002, were approximately \$1,056,000, \$1,026,000, and \$991,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$21,000 in the current fiscal year at the rate of .15 percent of compensation. The University paid the employer's 7.55 percent share, included in the amount above, of approximately \$3,800 of pension costs for employees on educational leave with employees paying approximately \$1,500.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or

prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2003, the employer contribution rate became 13.85 percent that, as for the SCRS, included the 3.30 percent surcharge. The University's contributions to the PORS for the years ending June 30, 2004, 2003, and 2002, were approximately \$38,200, \$35,800, and \$33,500, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$700 and accidental death insurance contributions of approximately \$700 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts that are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.30 percent from the employer in fiscal year 2004.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately \$354,000 (excluding the surcharge) from the University as employer and approximately \$282,000 from its employees as plan members. 5.85 percent of the total contributions were remitted to the Retirement Division of the State Budget and Control Board. Also, the University paid employer group life insurance contributions of approximately \$7,000 in the current fiscal year at the rate of .15 percent of compensation. The balance was remitted directly to the respective annuity policy providers. Included in the total contribution, the University paid the employer's 7.55 percent share of approximately \$3,500 of pension costs for employees on educational leave with employees paying approximately \$2,800. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will

begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

NOTE 7 – POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 25,000 State retirees met these eligibility requirements as of June 30, 2003.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of approximately \$1,473,000 for the year ended June 30, 2004. As discussed in Note 6, the University paid approximately \$629,000 applicable to the 3.30 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement

FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 8 – CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

The University participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of approximately \$280,000 at June 30, 2004, of which all will be capitalized. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$362,851 of authorized undrawn state capital improvement bonds.

NOTE 9 – DEFERRED REVENUES

Deferred revenues as of June 30, 2004, are summarized as follows:

Current:	
Student tuition and fees	\$ 524,972
Grants and contracts	77,661
Sales and services of education departments	26,754
Housing rental	109,617
Other	14,180
Net deferred revenues	<u>\$ 753,184</u>
Noncurrent:	
Housing rental	<u>\$3,151,484</u>
Net deferred revenues	<u>\$3,151,484</u>

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – LEASE OBLIGATIONS

Future commitments for capital leases as of June 30, 2004, are as follows:

	Year Ending June 30,	Capital Lease Payments
	2005	\$ 38,554
	2006	35,056
	2007	35,056
	2008	35,056
	2009	15,184
Total minimum lease payment		<u>158,906</u>
Less: Interest		(7,710)
Executory and other costs		(69,950)
Principal outstanding		<u>\$ 81,246</u>

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Certain capital leases provide for renewal and/or purchase options. The cost of assets held under capital leases totaled \$85,657 as of June 30, 2004. Accumulated amortization of the leases on this equipment totaled \$17,131 at June 30, 2004, resulting in a book value of \$68,525. Current years amortization expense on capital leases was \$17,131 that is included in depreciation expense. The capital leases are with external parties.

Operating Leases

During fiscal year 2004, the University paid approximately \$61,300 for copier leases paid on a cost per copy basis to external parties. The University also paid approximately \$6,100 on equipment under a cancelable operating lease. All payments were to external parties.

NOTE 11 – BONDS AND NOTES PAYABLE

Bonds Payable

The University made a principal payment of \$370,000 on the Revenue Refunding Bonds, Series 1999 during the year. The outstanding \$3,080,000 in principal was defeased when the Francis Marion University Real Estate Foundation placed \$3,288,505 on deposit to pay the bonds as they mature. The University recorded a \$208,505 loss on early refunding of bonds.

Tuition fees, as defined by code section 59-107-30, of approximately \$199,000 were collected during fiscal year 2003. The University has no debt from institution bonds.

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

Notes Payable

The University notes payable consist of the following at June 30, 2004:

	Interest Rate	Maturity Date	Balance
Master purchase line agreement to acquire a PBX telephone switch dated January, 2002	3.65%	February, 2007	\$ 174,661

The scheduled maturities of the note payable is as follows:

Year Ended June 30,	Total Principal	Interest	Total Payments
2005	\$ 65,670	\$ 5,277	\$ 70,947
2006	68,104	2,843	70,947
2007	40,887	499	41,386
Totals	<u>\$ 174,661</u>	<u>\$ 8,619</u>	<u>\$ 183,280</u>

The Foundation notes payable consists of \$400,000 owed on a loan agreement with a financial institution to construct the Francis Marion University Faculty Alumni House and the \$200,000 advance from the University as described in Note 14.

NOTE 12 – LONG-TERM LIABILITIES

Long-term liability activity of the University for the year ended June 30, 2004, are as follows:

	June 30, 2003	Additions	Reductions	June 30, 2004	Due within One year
Bonds and note payable and capital lease obligations:					
Revenue bonds	\$ 3,450,000	\$ -	\$ (3,450,000)	\$ -	\$ -
Notes payable	237,983	-	(63,322)	174,661	65,670
Capital lease obligations	18,774	85,657	(23,185)	81,246	18,374
Total bonds, notes, and capital leases	<u>3,706,757</u>	<u>85,657</u>	<u>(3,536,507)</u>	<u>255,907</u>	<u>84,044</u>
Other liabilities:					
Accrued compensated absences	1,319,718	975,166	(939,533)	1,355,351	932,794
Perkins federal capital contributions	1,613,881	19,136	-	1,633,017	-
Arbitrage rebate	29,163	2,425	(31,588)	-	-
Student deposits	143,265	61,338	(69,428)	135,175	78,765
Deferred housing rental	-	3,288,505	(27,404)	3,261,101	109,617
Total other liabilities	<u>3,106,027</u>	<u>4,346,570</u>	<u>(1,067,953)</u>	<u>6,384,644</u>	<u>1,121,176</u>
Total long-term liabilities	<u>\$ 6,812,784</u>	<u>\$ 4,432,227</u>	<u>\$ (4,604,460)</u>	<u>\$ 6,640,551</u>	<u>\$ 1,205,220</u>

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – ENDOWMENTS

Donor Restricted Permanent Endowments

Endowments are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require that the income be used for a specific purpose. These restrictions are discussed in Note 14. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the

endowment fund investments. Any net appreciation is required to be spent for the purposes for which the endowment was established.

NOTE 14 – COMPONENT UNIT

Various financial activities occurred between the University and the Foundation. A summary of transactions and/or balances at June 30, 2004, and for the year then ended follows.

-
- | | |
|--|------------|
| a) Scholarships awarded by the University and funded by the Foundation. The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense. | \$ 123,359 |
| b) Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Foundation. (Includes \$325 owed to the University at June 30, 2004, and included in amount due from Foundation.) The University recorded these awards as gift revenue and the applicable operating expense. | \$ 81,855 |
| c) Personal service payments to professors holding endowed chairs made by the University and funded by the Foundation. The University recorded these amounts as gift revenue and salary expense. | \$ 61,250 |
| d) Reimbursements for University employee time and other costs paid by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as a reduction of the applicable operating expense. | \$ 41,918 |
| e) Group life insurance premium payments made by the University and funded by the Foundation. (Includes \$636 owed to the University at June 30, 2004, and included in amount due from Foundation.) The University recorded these amounts as gift revenue and benefit expense. | \$ 17,132 |
| f) Rent for a motor vehicle used by the University's President in the amount of \$7,397 was paid by the Foundation. Other payments by the Foundation for the benefit of the University and its staff included \$12,461 for club memberships, \$9,145 for other goods and services, \$2,667 for furniture and appliances, \$14,317 for special events and \$5,972 for travel. The University recorded these amounts as gift revenue and the applicable operating expense. | |
| g) The University continued a loan agreement with the Foundation in which the University initially lent the Foundation \$200,000, (all of its endowment assets), to invest with a guarantee of a minimum annual return of 7%. The note receivable is due on demand. In addition, the net balance of excess earnings is also to be loaned to the Foundation for investment and is reported as accounts receivable as a quasi-endowment. The University is owed \$31,582 from the investment loan agreement, of which \$14,000 is earned interest for the year ended June 30, 2004. This is based on the 7% guaranteed return. Lending of the University's endowment resources to the Foundation is in accordance with Section 59-101-410 of the South Carolina Code of Laws which authorizes the governing boards of state-supported universities to lend their endowment and auxiliary enterprise monies on deposit with the State Treasurer's Office to | |

FRANCIS MARION UNIVERSITY NOTES TO FINANCIAL STATEMENTS

separately chartered not-for-profit legal entities whose purpose is primarily providing financial assistance and other support to the institution and its educational program.

- h) The University has a \$9,229 receivable due from the Foundation for a land improvement project. Payment will be made from receipt of pledges to the Foundation.
- i) The University leased land to the Foundation for \$1 per year for the purpose of building a faculty-alumni house known as the Wallace Cottage. The facility was completed in September 2003. The lease is for twenty-five years with an option to renew for an additional ten years. Upon expiration of the lease the faculty-alumni house will become the property of the University. The University pays the Foundation \$30,000 per year for five years for usage of the facility. At year end, the University receives 70% of the profit from the Foundation or pays the Foundation 70% of any loss. For the year, the profit split was \$16,172 and is included in amount due from Foundation. Also, the University is owed \$412 for reimbursement of operating expenses paid by the University on behalf of the Foundation.

NOTE 15 – RELATED PARTIES

On March 1, 2004, Francis Marion University entered into a forty-year lease with the FMU Student Housing, LLC, a single member limited liability company owned by the Francis Marion University Real Estate Foundation. The lease included all the University's existing on-campus housing, composed of fourteen apartment style facilities and six dormitory style facilities having an aggregate of 716 beds and also included 8.96 acres of land to be used as the site to construct a 237 bed apartment complex. The lease agreement provided for the University to be paid a single rent payment in the amount of \$3,288,505 at the commencement of the lease and to receive throughout the term of the lease the net available cash flow from the operations of the leased property. No additional rent was received for the year ending June 30, 2004. On April 2, 2004, the University, using the \$3,288,505 rent payment, defeased the outstanding Francis Marion University Revenue Refunding Bonds Series 1999.

The University is providing the LLC with rent collection and facilities support services. The University collects as part of its student fee collection process student housing deposits, fees, and fines. All collections, excluding housing deposits, are remitted to the FMU Student Housing, LLC. Collections due to the LLC at June 30, 2004, are \$220,537 and are included in accounts payable. The University also provides grounds maintenance, cleaning services, facilities maintenance and other facility support services to the student housing facilities. The University is reimbursed for its cost in providing these

services. Reimbursements due from the LLC at June 30, 2004, are \$187,892 and are included in accounts receivable – auxiliary enterprises.

NOTE 16 – RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Business interruptions
- Natural disasters
- Medical malpractice claims against covered employees

to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

NOTE 17 – EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2004, are summarized as follows:

The IRF is a self-insurer and purchases reinsurance

	Salaries and Wages	Benefits	Supplies and other Services	Utilities	Scholarships	Depreciation	Total
Instruction	\$10,679,328	\$ 2,629,656	\$ 632,503	\$ 27,022	\$ -	\$ -	\$13,968,509
Research	103,764	18,190	128,282	-	-	-	250,236
Public service	264,444	49,980	192,347	817	-	-	507,588
Academic support	1,612,697	426,099	1,740,099	9,313	-	-	3,788,208
Student services	1,844,413	485,269	1,100,991	19,234	-	-	3,449,907
Institutional support	2,524,617	685,575	711,773	36,837	-	-	3,958,802
Operation and maintenance of plant	2,117,889	744,339	1,419,094	1,309,960	-	-	5,591,282
Depreciation	-	-	-	-	-	1,866,470	1,866,470
Scholarships	-	-	-	-	3,465,954	-	3,465,954
Auxiliary Enterprises	550,122	58,954	293,070	458,016	-	-	1,360,162
Total operating expenses	<u>\$19,697,274</u>	<u>\$ 5,098,062</u>	<u>\$ 6,218,159</u>	<u>\$ 1,861,199</u>	<u>\$ 3,465,954</u>	<u>\$ 1,866,470</u>	<u>\$38,207,118</u>

**FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 18 – STATE APPROPRIATIONS

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2004:

NON-CAPITAL APPROPRIATIONS

Current year's appropriations:	
Original appropriations per Annual Appropriations Act	\$ 12,760,567
Mid-year appropriation reductions	(127,606)
From Commission on Higher Education:	
Academic Incentive Endowment Match	<u>10,344</u>
Total non-capital appropriations recorded as current year revenue	<u>\$ 12,643,305</u>

NOTE 19 – STATEMENT OF ACTIVITIES

The following information is provided for incorporation in the State of Carolina Comprehensive Annual Financial Report:

	Year ended June 30,	
	2004	2003
Charges for services	\$ 14,235,778	\$ 12,682,995
Operating grants and contributions	10,950,509	10,664,202
Capital grants and contributions	-	578,456
Less: expenses	<u>(38,543,820)</u>	<u>(36,999,616)</u>
Net program revenues	<u>(13,357,533)</u>	<u>(13,073,963)</u>
Transfers:		
State appropriations	12,643,305	14,174,497
Capital improvement bond proceeds	30,584	59,875
Transfers to state agencies	<u>(84,000)</u>	<u>(51,250)</u>
Total transfers	<u>12,589,889</u>	<u>14,183,122</u>
Change in net assets	<u>(767,644)</u>	<u>1,109,159</u>
Net assets - beginning	31,535,314	30,426,155
Net assets - ending	<u>\$ 30,767,670</u>	<u>\$ 31,535,314</u>

FRANCIS MARION UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Total Expenditures</u>
Direct Programs:			
U.S. Department of Justice			
Public Safety Partnership and Community Policing Grants	16.710	2001UMWX0269	\$ 13,639
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grants	84.007	PO7A53784	157,925
Federal Work-Study Program	84.033	PO33A53784	143,749
Federal Perkins Loan Program - Federal Capital Contributions	84.038	PO38A53784	2,098,809
Federal Pell Grant Program	84.063	PO63P56065	3,675,766
National Science Foundation			
Mathematical and Physical Sciences	47.049	CHE-0315152	50,417
U.S. Department of Health and Human Services			
Special Minority Initiatives	93.960	1R25GM66318-01	181,465
Securities and Exchange Commission			
Securities-Investigation of Complaints and SEC Information	58.001	M03-0537	128,786
Total Direct Programs			<u>6,450,556</u>
Indirect Programs:			
U.S. Department of Justice			
Passed Through South Carolina Department of Safety Byrne Formula Grant Program	16.579	1F02089	7,500
U.S. Department of Education			
Passed Through National Writing Project Corp. National Writing Project	84.928A	00-SC10	30,735
Passed Through South Carolina Commission on Higher Education Eisenhower Regional Mathematics and Science Education Consortia	84.319	0603240-H18	17,645
Passed Through South Carolina Commission on Higher Education Improving Teacher Quality State Grants	84.367	0304248-H18	71,190
Passed Through South Carolina Department of Education Special Education-State Program Improvement Grants for Children with Disabilities	84.323	04-CT-304	7,429
National Science Foundation			
Passed through the Association of American Colleges and Universities Education and Human Resources	47.076	0402224-H18	416
U.S. Department of Health and Human Services			
Passed through the University of Florida Fogarty International Research Collaboration Award	93.934	UF-EIES-0308002-FMU	24,840
U.S. Department of Homeland Security			
Passed through South Carolina Emergency Management Division Public Assistance Grants	97.036	041-27340-00	25,302
U.S. Department of Agriculture			
Passed through the University of South Carolina Wetlands Reserve Program	10.072	PO32231	9,321
Total Indirect Programs			<u>194,378</u>
Total Federal Assistance			<u><u>\$6,644,934</u></u>

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of Francis Marion University (the University) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Laban, PA

October 27, 2004



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of Francis Marion University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses..

This report is intended solely for the information and use of the Board of Trustees, management and the federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers = Lalan, PA

October 27, 2004

**FRANCIS MARION UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE YEAR ENDED JUNE 30, 2004

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS:

1. An unqualified opinion dated October 27, 2004 on the financial statements of the University for the year ended June 30, 2004 was issued.
2. No reportable conditions related to internal control over financial reporting were noted.
3. No instances of noncompliance which were material to the financial statements were noted.

FEDERAL AWARDS:

4. An unqualified opinion on compliance for the major program dated October 27, 2004 was issued.
5. There are no findings related to internal control over major programs required to be reported under Section .510(a) of OMB Circular A-133.
6. The major programs of the University are as follows:

CFDA #	Program Title
84.007	Supplemental Educational Opportunity Grant
84.033	Federal Work Study
84.038	Federal Perkins Loan Program
84.063	Pell Grant Program

7. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
8. The University was determined to be a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

No material reportable conditions were noted during our audit.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No findings and questioned costs for federal awards were noted that are required to be reported under Section .510(a) of OMB Circular A-133.